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The Impact of IT-Driven Market Transparency on Demand, Prices, and Market Structure

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ABSTRACT

The Internet revolution brought about significant changes in the availability of market information to consumers in many industries. This research examines technology-driven changes in *market transparency*, defined as the ability of market participants to observe information about products and prices. The objective is to develop a modeling and empirical basis for a *theory of market transparency* in electronic markets. Three studies are underway at the individual, firm, and industry level. The first study is an econometric analysis to determine how market transparency impacts consumers' willingness-to-pay. Specifically, price elasticities are estimated for Internet and traditional sales channels using a large data set of U.S. point-of-sale airline tickets. The second study is the development of an economic model to derive the optimal price and transparency level that firms should adopt to maximize profits. The model assumes that information technology (IT) allows firms to make choices regarding the level of transparency with which they will compete in the marketplace. Real-world strategies of Internet travel agencies are evaluated against the normative findings of this model. The third study develops a *theory of unbiased electronic markets*, which builds on case studies to explain why firms adopt transparent market mechanisms despite the consequent risk to their profits. This theory explains *how* IT impacts market structure and uncovers the competitive, institutional, and industry-specific forces that, together with IT, will lead to electronic markets that provide complete and unbiased information.